Arun District Council

REPORT TO:	**Audit and Governance Committee – 27 February 2025**
SUBJECT:	**Treasury Management Strategy Statement and Annual Investment Strategy 2025/26**
LEAD OFFICER:	**Antony Baden - Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	**Councillor Matt Stanley**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Council's Treasury Management Strategy Statement and Annual Investment Strategy for the 2025/26 financial year supports and promotes all the Council's corporate priorities.

DIRECTORATE POLICY CONTEXT:

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS), including the Minimum Revenue Provision (MRP) policy statement, influences the activities of all Directorates across the Council.

It is one of the most important reports considered by Audit and Governance Committee for the financial year (2025-26). It is forward looking and includes:

- the capital plans (including prudential indicators),
- the Minimum Revenue Provision policy statement, which sets out how capital expenditure funded from borrowing is charged to the revenue budget over time,
- the Treasury Management Strategy, which explains how the Council's investments and borrowings are to be organised, (including treasury indicators), and,
- the Annual Investment strategy (the parameters on how investments are to be managed).

FINANCIAL SUMMARY:

The financial implications are explained throughout the report.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) for 2025/2026 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 19 March 2025.

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

2.1. Approve and adopt the Treasury Management Strategy Statement for 2025/26.
2.2. Approve and adopt the Annual Investment Strategy for 2025/26.

2.3. Approve the Prudential Indicators within the TMSS and AIS for 2025/26.

2.4. Approve an operational boundary borrowing limit of £85M for 2025/26 as shown in Appendix 2.

2.5. Approve an Authorised Borrowing Limit of £90M for 2025/26 as shown in Appendix 2.

3. EXECUTIVE SUMMARY

3.1. The report has been prepared to ensure that the content complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021.

3.2. Section 12 of the Local Government Act 2003 Act provides local authorities with the power to invest for any purpose relevant to its functions, or for the purposes of the prudent management of its finances. Broadly speaking, this means that its cash resources must be invested under the 'SLY' principles of Security, Liquidity and then Yield.

4. DETAIL

4.1. CIPFA defines treasury management as follows:

"*The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

4.2. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

4.3. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

4.4. The details of the TMSS, AIS and Prudential Indicators are included in Appendices 1 to 8. Appendix 9 contains the Council's Treasury Management scheme of delegation and Appendix 10 outlines the role of the section 151 officer. Appendix 11 has been included to illustrate the issues facing the Council with regards to the IFRS 9 override.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – MUFG Corporate Markets (previously named Link Group, Link Treasury Services Limited).

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The Treasury Management Strategy is a mandatory requirement under the Local Government Act 2003. The members must therefore adopt the strategy and are invited to comment on the proposals of this report.

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

7.3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.

7.4. The financial implications of both strategies are detailed throughout this report and in the Appendices.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor treasury management practices, diminished interest returns, loss of capital invested and poor funds liquidity. The Council's strategies mitigate against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Council including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. No direct implications.

11. HEALTH & SAFETY IMPACT

11.1. No direct implications.

12. PROPERTY & ESTATES IMPACT

12.1. No direct implications.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. No direct implications.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. Best practice is taken when reviewing investment options to ensure that they are with companies or banks that are actively looking to reduce their impact on the environment and increase sustainability.

14.2. Current Investments with CCLA (Cautious Multi-Asset Fund and the Local Authority Property Fund) and Standard Chartered (Sustainable deposits) have positive ESG (Environmental, Social and Governance)

14.3. Further options will be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None.

16. HUMAN RIGHTS IMPACT

16.1. None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None.

CONTACT OFFICER:
Name: Sian Southerton
Job Title: Senior Business Partner (Treasury Management)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Cipfa, December 2021) *(Link not available as copyright).*
- The Prudential Code for Capital Finance in Local Authorities (Cipfa, December 2021) *(Link not available as copyright).*
- MHCLG - Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)
- Link Asset Services Ltd TMSS Template 2025/26 *(Link not available as copyright).*
- MHCLG Capital finance: guidance on minimum revenue provision (5th edition) 10 April 2024

Appendix 1

Treasury Management Strategy Statement and Annual Investment Strategy 2025/26

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

1.1.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund (GF) balance.

1.1.4 CIPFA defines treasury management as:

> "*The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

1.1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.1.6 **Treasury management investments** represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in the Council's bank account resulting from the day-to-day activities. These are invested under the SLY principles (Security, Liquidity and then Yield).

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes 2021 confirms a requirement for local authorities to produce an annual Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement, and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under Security, Liquidity, Yield (SLY). This report will be considered at Policy and Finance Committee on 13 March 2025 for approval by Full Council on 19 March 2025.

1.2.2 Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1) **Prudential and treasury indicators and treasury strategy** (TMSS - this report) - The first and most important report is forward looking (2025-2026) and covers:

   - the capital plans (including prudential indicators)
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an Annual Investment Strategy (the parameters on how investments are to be managed)
   - it also includes the third quarterly progress report to 31 December 2024.

2) **A mid-year (Q2) treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. This reports on the period up to 30 September 2025.

3) **An annual treasury report** – This is a backward looking review document (2024-2025) providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.3 **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Governance Committee and will be presented at the following meetings;

1) TMSS – February 2025 meeting
2) Mid-year (Q2) – November/December 2025 meeting
3) The annual report for 2024-25 – July 2025 meeting

1.2.4 In addition to the three major reports detailed above, quarterly reporting to the end of June (Q1) is also required. However, additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee and will be received at the September meeting (the report will comprise updated Treasury/Prudential Indicators).

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

1.3.1 **Capital issues**

- the capital plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

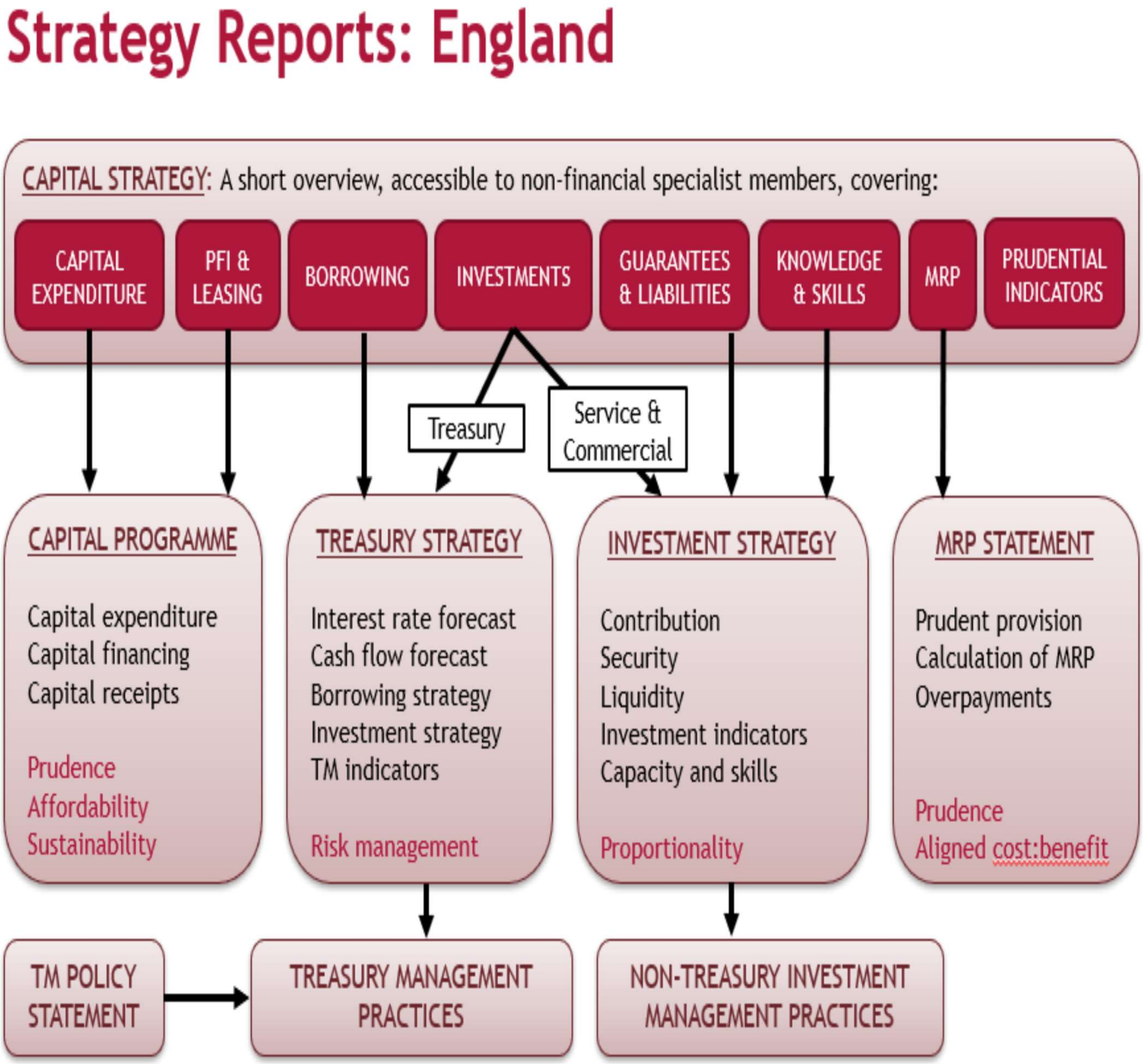
1.3.2 **Treasury management issues**

- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- policy on use of external service providers

1.3.3 These elements cover the requirements of the Local Government Act 2003, MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.3.4

The diagram below shows how capital expenditure affects the Treasury Management Strategy



1.4 Training

1.4.1 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

1.4.2 Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making".

1.4.3 As a minimum, the following will be carried out to monitor and review knowledge and skills:

- Record attendance at training/briefings and ensure action is taken where poor attendance is identified.
- Prepare tailored learning sessions for treasury management officers and Council members.
- Request treasury management officers and Council members to undertake self-assessment against the required competencies:

  CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management,' which is available from the CIPFA website to download.
- Have communication with officers and Council members, encouraging them to highlight training needs on an ongoing basis.

1.4.4 Members of the Audit and Governance Committee were invited to Treasury Management briefing sessions held on 19 June 2024 and 25 September 2024 presented by Arun District Council officers. Attendance was 7 and 4 members out of 11 respectively.

1.4.5 The training needs of treasury management officers are periodically reviewed, and officers attend courses provided by appropriate trainers such as our Treasury advisors - MUFG Corporate Markets and CIPFA.

1.4.6 A formal record of the training received by officers and members central to the Treasury function is maintained by the Senior Business Partner responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

1.5 Treasury management consultants

1.5.1 The Council uses MUFG Corporate Markets (previously named Link Group, Link Treasury Services Limited) as its external treasury management advisors.

1.5.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.5.4 The scope of investments within the Council's operations includes both conventional treasury investments, (the placing of residual cash from the Council's functions) and 1 commercial type investment (East Preston Depot).

2 <u>The Capital Prudential Indicators 2025/26 to 2027/28</u> (Appendix 2)

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are prudent. Affordable and sustainable.

2.1 Capital Expenditure and Financing

2.1.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 26 February 2025.

2.1.2 Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including sheltered accommodation, HRA improvements and efficiencies, Decarbonisation, Bognor Regis arcade, waste management, and the Levelling Up project, plus smaller projects.

2.1.3 Much of this programme will be funded from capital grants and it is expected that additional borrowing (£16,681) will be required for both the GF and HRA, the timing of which is yet to be determined and will depend on the PWLB interest rates and internal resources available.

2.1.4 The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the capital programme (both GF and HRA).

2.1.5 The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	Actual 2023/24 £'000	Budget 2024/25 £'000	Current Budget (Q3,P7) 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000
Non HRA	7,153	24,020	12,974	26,345	7,969	2,770
HRA	7,114	15,151	12,626	13,552	10,086	8,686
Total	**14,268**	**39,171**	**25,420**	**39,897**	**18,055**	**11,456**
Financed by:						
Capital receipts (1-4-1)	1,639	552	990	1,416	0	0
Capital grants (inc S106)	4,310	16,440	12,447	15,800	3,310	3,310
Capital reserves	4,423	5,901	5,901	5,956	5,956	5,956
Revenue	1,242	0	872	45	0	0
Total	**11,614**	**22,893**	**20,210**	**23,216**	**9,266**	**9,266**
Net financing need for the year	**2,654**	**16,278**	**5,211**	**16,681**	**8,789**	**2,190**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

2.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

2.2.3 The Council does not have any PFI schemes within the CFR but does have finance leases. The Council is asked to approve the CFR projections in Appendix 2 also shown below:

CFR	Actual 2023/24 £,000	Current Budget 2024/25 £,000	Estimated Outturn (P7-Q3 forecast) 2024/25 £'000	Estimate 2025/26 £,000	Estimate 2026/27 £,000	Estimate 2027/28 £,000
	Capital Financing Requirement					
Non HRA	119	6,451	816	21,267	26,395	25,070
HRA	51,765	60,538	53,709	58,210	59,245	58,880
Total CFR	**51,884**	**66,989**	**54,525**	**79,477**	**85,640**	**83,950**
Movement in CFR	**(973)**	**11,776**	**2,641**	**24,951**	**6,164**	**(1,690)**

	Movement in CFR represented by					
HRA unfinanced / Internally financed	955	7,877	3,308	5,866	2,400	1,000
GF unfinanced / Internally financed	1,699	7,330	2,226	22,046	6,390	0
Disposal of finance lease HRA.	(612)	0	0	0	0	0
Less MRP Leases	(1,650)	(1,715)	(1,529)	(1,596)	(1,261)	(1,325)
Less HRA Provision	(1,365)	(1,716)	(1,365)	(1,365)	(1,365)	(1,365)
Movement in CFR	**(973)**	**11,776**	**2,641**	**24,951**	**6,164**	**(1,690)**

2.3 Liability Benchmark

2.3.1 The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

2.3.2 **There are four components to the LB: -**

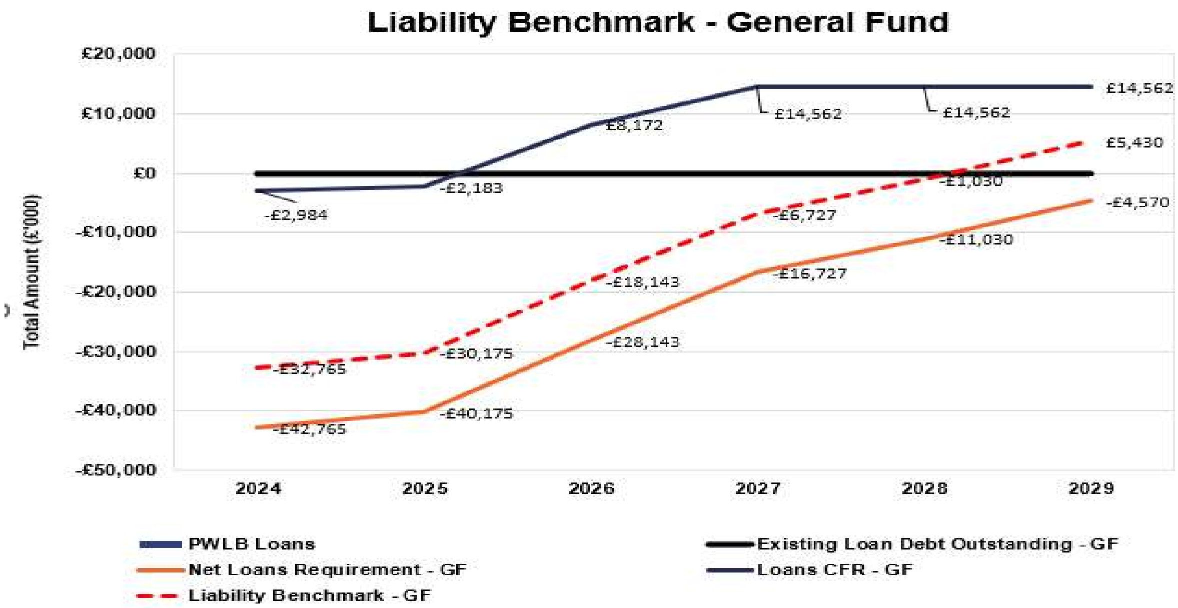
- **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

- **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

2.3.3 The chart below shows the liability benchmark for the general fund for the year opening 2024 through to the year ended March 2029. An explanation of what this is showing is highlighted below;

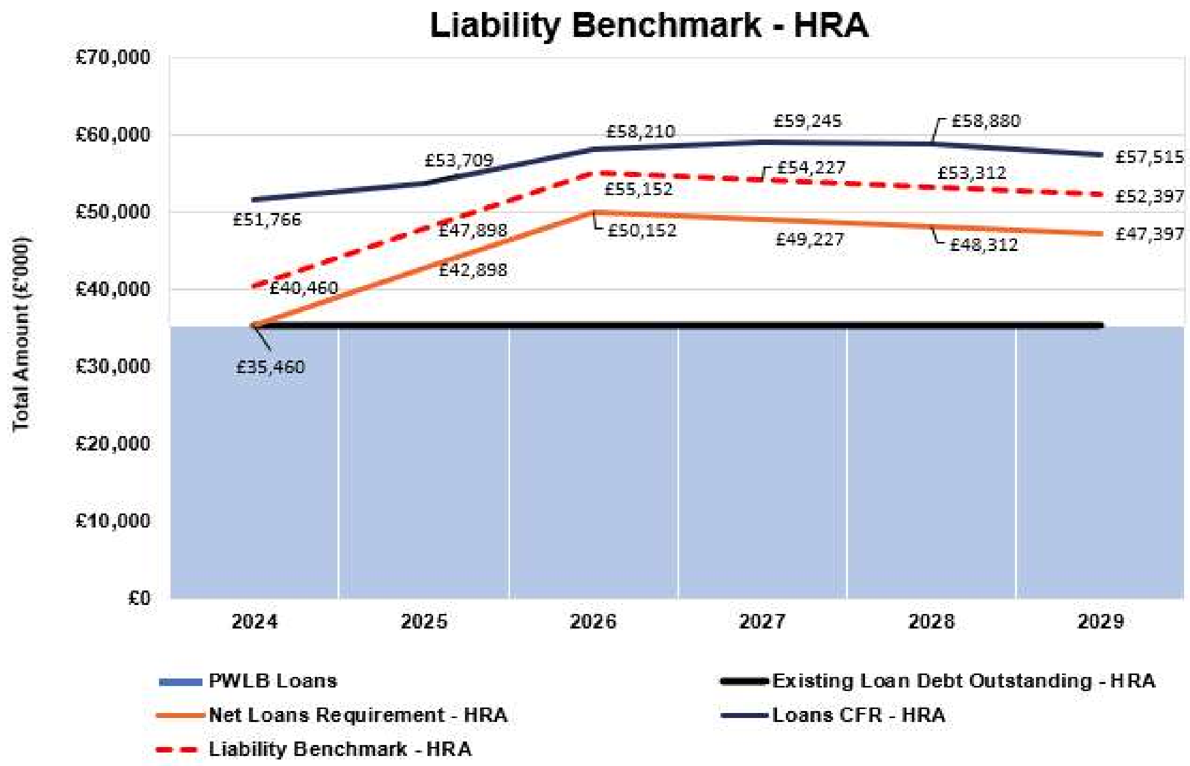


- The Blue line (at the top) represents the Loans CFR (excluding leases). The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.

- The Black line represents the existing load debt outstanding of which there is none.

- Any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment. The chart above indicates that the authority anticipates it will have sufficient cash to fund the borrowing in the short term rather than externalise borrowing. This will support the authority in the short term by reducing borrowing costs whilst interest rates are higher.

2.3.4 The below chart shows the liability benchmark for the HRA for the year opening 2024 through to the year ended March 2029. An explanation of what this is showing is highlighted below



- The Blue line (at the top) represents the Loans CFR (excluding leases). The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.

- The Black line represents the existing load debt outstanding and tracks the existing debt balance.

- This shows a liability benchmark that is consistently above the level of current debt. This means that the Council expects to need to increase its borrowing from current levels.

2.4 Core funds and expected investment balances

2.4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

2.4.2 The 2023-24 actual figures contained in this table are draft and subject to external audit.

Year End Resources £m	2023/24 Actual £m	2024/25 Estimate (P7-Q3) £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Usable Revenue Reserves	19.68	17.89	16.21	11.19	5.49
Housing Revenue Account Balance	0.48	0.89	1.55	2.18	2.30
Housing Major Repairs Reserve	4.21	2.87	1.66	0.59	0.02
Capital Receipts	1.1	1.1	0.42	0	0
Capital Grants unapplied	10.56	9.28	0	0	0
Total core funds	**36.03**	**32.03**	**19.84**	**13.97**	**7.81**
Other cashflow sums	6.74	9.02	21.68	22.85	24.61
Expected investments	**42.77**	**41.05**	**41.52**	**36.82**	**32.42**

2.5 Minimum Revenue Provision (MRP) Policy Statement

2.5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

2.5.2 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) gives four ready-made options for calculating MRP, but the Council can use a mix of these options if they can justify as prudent.

2.5.3 The MRP policy statement requires Full Council approval in advance of each financial year. For expenditure incurred after the 1 April 2008 the Council is recommended to approve the following MRP Statement (detailed policy in appendix 3):

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets.

2.5.4 The Council does not currently have any General Fund debt liability and therefore is not statutorily required to make Minimum Revenue Provision (MRP). All external debt is currently for the Housing Revenue Account (HRA) and while MRP is not required for the HRA, a provision is set aside to repay these loans when they become due. There are plans however for further borrowing (both HRA and General Fund) and to potentially externalise the current internal borrowing and therefore MRP will be applied to the General Fund.

2.5.5 Any capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

2.5.6 The Council will apply Option 3, the asset life method for any expenditure capitalised under a Capitalisation Direction.

2.5.7 While there is no requirement on the HRA to make a minimum revenue provision, there is a requirement for a charge for depreciation to be made.

2.5.8 MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

2.5.9 **MRP Overpayments**

Under the MRP guidance, charges made in excess of the statutory MRP can be made. These are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The Council does not undertake any VRP.

2.6 Affordability Prudential Indicators

2.6.1 This report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 2.

2.6.2 **Ratio of net financing costs to net revenue stream.**
This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	Actual 2023/24 %	**Forecast 2024/25 (P6) %**	**Estimate 2025/26 %**	**Estimate 2026/27 %**	**Estimate 2027/28 %**
Non-HRA	(8.37)%	(7.61)%	(7.73)%	(7.08)%	(6.50)%
HRA	18.25%	17.57%	15.13%	14.36%	13.94%

3 <u>Borrowing</u>

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Portfolio Position

3.1.1 The Council's Treasury Investment and debt portfolio position at 31 March 2024 and 31 December 2024 are summarised below;

	actual 31.3.24 £000	actual 31.3.24 %	current 31.12.24 £000	current 31.12.24 %
Treasury investments:				
Diversified Funds	2,000	5%	2,000	4%
Property Funds	5,000	12%	5,000	9%
In-house:				
Banks	15,800	37%	33,060	60%
Building societies - unrated	0	0%	0	0%
Building societies - rated	1,000	2%	0	0%
Local authorities	6,000	14%	11,000	20%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	12,965	30%	4,450	8%
Total treasury investments	**42,765**	**100%**	**55,510**	**100%**
Treasury actual external borrowing:				
PWLB	(35,460)	92%	(35,460)	95%
Finance leases	(3,103)	8%	(1,896)	5%
Total external borrowing	**(38,563)**	**100%**	**(37,356)**	**100%**
Net treasury investments / (borrowing)	**4,202**		**18,154**	

3.1.2 The breakdown of these investments held at 31 December 2024 are shown in Appendix 4.

3.1.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2023/24 Actual	2024/25 Estimated outturn	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt					
Debt at 1 April	**(35.46)**	**(35.46)**	**(40.67)**	**(57.31)**	**(66.1)**
Expected change in Debt	0	(5.21)	(16.64)	(8.79)	(1.00)
Re-payments (HRA debt)	0	0	0	0	0
Expected change in long-term liabilities (OLTL)	(3.10)	(1.90)	(11.57)	(10.31)	(8.98)
Actual gross debt at 31 March	**(38.56)**	**(42.57)**	**(68.88)**	**(76.41)**	**(76.09)**
Capital Financing requirement – HRA	51.77	53.71	58.21	59.24	58.88
Capital Financing requirement - GF	0.12	0.82	21.27	26.4	25.07
The Capital Financing Requirement	**51.88**	**54.52**	**79.48**	**85.64**	**83.95**
Under / (over) borrowing	13.32	11.96	10.59	9.23	7.86

3.1.4 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.1.5 The Council's only external borrowing relates to the HRA Self-Financing settlement which was initially £70.9m on 28/3/2012 now £35.46m. Prior to this borrowing being undertaken, the Council had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result, Arun's gross debt is not expected to exceed its CFR in 2025-26.

3.1.6 The Group Head of Finance reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Council is requested to approve an operational boundary of £85M in Appendix 2 (2025/26).

3.2.2 The Authorised Limit for external debt.

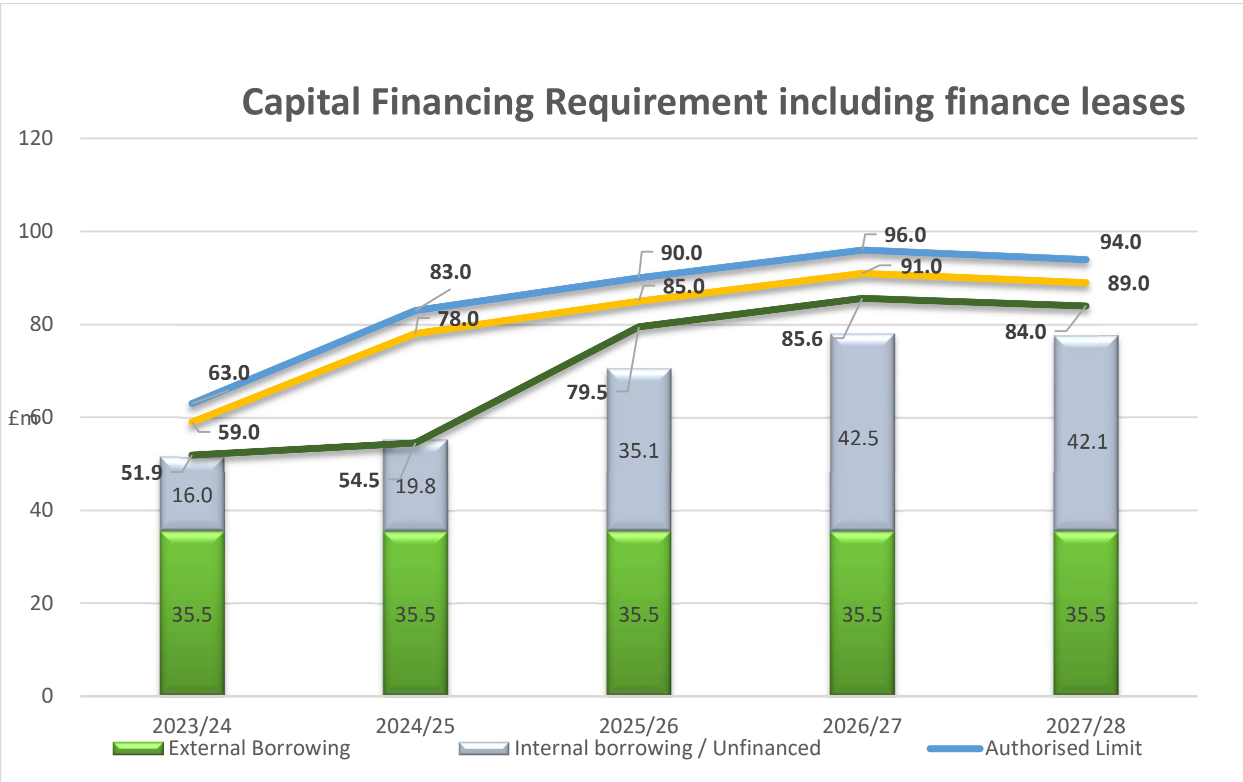
This is a key prudential indicator and represents a control on the maximum level of borrowing.

This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

The Council is asked to approve an Authorised Limit of £90M appendix 2 (2025/26).

3.2.3 The chart below shows the Council's projection of CFR and borrowing forecast.



3.2.4 The bars in the chart show the actual external debt plus potential future borrowing and internal borrowing. The Authorised Limit and Operational Boundary factor in new potential borrowing which allows for expenditure on sheltered accommodation, HRA improvements and efficiencies, Decarbonisation, Bognor Regis Arcade, waste management, and the Levelling Up projects (Littlehampton and the Alexandra theatre), plus smaller projects also potentially externalizing some internal borrowing.

3.3 Prospects for Interest Rates

3.3.1 The Council has appointed – MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts (also shown in Appendix 5). These are forecasts for Bank Rate, and PWLB certainty rates, gilt yields plus 80 bps, followed by their commentary.

Bank Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**4.75%**	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
Capital Economics	**4.75%**	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%	-	-	-	-

5yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.07%**	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	4.00%	3.90%
Capital Economics	**5.07%**	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%	-	-	-	-

10yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.39%**	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%	4.20%	4.20%	4.10%
Capital Economics	**5.39%**	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%	-	-	-	-

25yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.88%**	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%
Capital Economics	**5.88%**	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%	-	-	-	-

50yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.59%**	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.30%
Capital Economics	**5.59%**	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%	-	-	-	-

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases. December saw a vote of 6-3 to keep interest rates unchanged at 4.75%.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA **(standard rate minus 60 bps).**

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme in 2025-2026 but reducing over the subsequent years. The 2025-26 programme consists of expenditure largely relating to the Levelling Up Fund (Alexandra Theatre and Littlehampton seafront of £12.65m), Bognor Regis Arcade (£6.14m), Waste Management (£3.02m) and other small items (general fund). In the HRA programme is largely; Sheltered accommodation (£4.60m), Decarbonisation (£2.73m), Improvements and Efficiencies (£5.96m).

3.4.2 The Council is currently maintaining an under borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

3.4.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Group Head of Finance will monitor interest rates in financial markets and information provided by the Council's Treasury advisors to adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.4.4 The level of expenditure expected within the capital programme will inevitably require a level of external borrowing. The timing of any new borrowing has not been identified at the time of writing, but all borrowing and its sources will be assessed for viability and affordability before any action is taken.

3.4.5 Given the expected under borrowing position of the Council, the borrowing strategy will give consideration to the most appropriate source of funding from the following list:

- Internal borrowing, by running down cash balances and foregoing interest earned, as this is the cheapest form of borrowing:

- Weighing the short-term advantage of internal borrowing against potential long term borrowing costs:

- PWLB loans up to 50 years (Certainty Rate is available to the Council at 0.2% below the normal terms):

- Local authorities (primarily shorter dated maturities):

- Other forms of borrowing where appropriate e.g., Municipal Bonds Agency or Bonds (Green or Local climate) where these offer better value than the PWLB.

Any decisions will be reported to the Audit and Governance Committee at the next available opportunity.

3.4.6 There may be an occasional need to borrow for liquidity purposes especially as the Council does not have an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team will maintain approximately £200k in the Lloyds liquidity accounts (bank account or call account) on a daily basis. Both are available until the close of business each day.

3.4.7 **Maturity structure of borrowing**

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the treasury indicators and limits in Appendix 2 also shown below:

Maturity structure of fixed interest rate borrowing 2025/26			
	Actual at 31/12/24	**Lower**	**Upper**
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

The Council currently has no variable rate borrowing.

3.5 Policy of Borrowing in Advance of Need

3.5.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.5.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

3.6.1 The only loans that the Council currently hold are those taken to fund the housing reform payment.

3.6.2 Rescheduling of current borrowing may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate. If rescheduling is to be undertaken, it will be reported to Full Council at the earliest meeting following its action.

3.7 New financial Institutions as a source of borrowing

3.7.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may also still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

- Municipal Bonds Agency who may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

3.7.2 Municipal Bonds are a more complicated source of finance than the PWLB for two reasons. Firstly, borrowing authorities will be required to provide bond investors with a guarantee to refund their investment if the agency is unable to for any reason. Secondly, there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

- "Green Bonds" or "Local Climate Bonds"

3.7.3 Green Bond borrowing is usually only available for significant amounts and takes time to arrange due to a due diligence process to safeguard the Council. Local Climate Bonds may offer another alternative for funding carbon reduction projects.

3.7.4 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Investment Strategy

4.1 Investment Policy – Management of risk

4.1.1 The Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

4.1.2 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021
- MHCLG Capital finance: guidance on minimum revenue provision (5th edition) 10 April 2024

4.1.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return) (SLY). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

4.1.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs, but to also consider "laddering" investments for periods up to 3 years with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

4.1.5 The above guidance from MHCLG and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments;** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, amounts and maturity, for each counterparty category will be set as shown in Appendix 6.

6. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 2).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (Appendix 8). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut, but this will be done with caution.

8. The Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

9. All investments will be denominated in **sterling**.

10. The Council may invest in investments that are termed **“alternative investments”.** These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment. (Category 7, Appendix 6)

11. The Council may invest in **Open Ended Investment Companies (OEICs)** such as diversified funds (currently the CCLA Local Authority Property Fund and Cautious Multi-Asset Fund) subject to some form of due diligence. These funds diversify the risk and offer enhanced returns (Category 10 & 11, Appendix 6)

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments (such as 10 and 11) which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. A temporary override was put in place to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. Subsequently, a further extension to the over-ride to 31 March 25 was agreed by Government.

    Consequently, any fluctuations in the value of the Councils’ investments in the CCLA Local Authority Property Fund or Cautious Multi-Asset Fund, will not be taken through the General Fund for the override period. Appendix 11 gives more details of the potential impact if the override was not in place at 31 December 2024.

4.1.6 The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.1.7 The Council does not strictly adhere to the advisor’s suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of any attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain at these increased levels.

4.2 Investment Policy continued – Environmental, Social and Governance (ESG) and Ethical considerations

4.2.1 Environmental, Social and Governance (ESG) considerations are increasingly a factor for investors and investment managers. The Council will consider ESG factors when placing any investment with current or new counterparties, but the framework for evaluating investment opportunities is still developing and therefore the Council’s ESG policy does not currently include scoring or other real-time ESG criteria at an individual level. Where matters for concern are identified for any specific counterparty, alternative counterparties will be considered.

4.2.2 The overriding priorities of treasury management must remain security, liquidity, and yield (SLY) in that order. The ESG and Ethical consideration thereby becomes a fourth consideration in the decision-making process. While ESG is a desirable objective for treasury investing, to comply with Statutory Guidance it must be ranked behind SLY.

4.2.3 Where the Council does not have direct control over the individual investments, (for example, in money markets or external pooled funds), the Council will seek to understand and evaluate the ESG policies of money market and external pooled funds when considering making an initial investment.

4.3 Creditworthiness policy

4.3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.3.2 The Group Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

4.3.3 Credit rating information (from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's) is supplied by MUFG Corporate Markets, our treasury advisors, on all active counterparties. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

4.3.4 The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if two or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria, time and monetary limits for each counterparty can be seen in Appendix 7. Currently Close Brothers are on the Councils lending list but suspended as they are currently under review and their ratings do not meet the minimum criteria due to this review. The Council has £1m invested with Close Brothers till 6 November 2025 which is 1.8% of total investments at 31 December 2024.

4.3.5 **Use of additional information other than credit ratings.**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the Council's rating criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional market information will be applied before making any specific investment decision from the agreed pool of counterparties.

These credit ratings are supplemented with:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.3.6 Credit ratings and CDS spreads of the Council's approved counterparty list are monitored on a real time basis. Our advisors provide a weekly ratings list, and the Council is alerted to any changes to ratings of all three agencies electronically as they happen.

4.3.7 The Council's officers recognise that this external service and ratings should not be the sole determinant of the quality of an institution. In addition, it is important to continually assess and monitor the market data, market information and the economic and political environments in which they operate to help support its decision-making process.

4.3.8 The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest up to the category limit that it falls in, for term deposits (currently category 2- £9M).

4.3.9 **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

4.3.10 **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.4 Limits

4.4.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30M (25/26) of the total treasury management investment portfolio.

- **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.4.2 The exception to this policy is the UK, which is currently rated AA- (or equivalent) by 2 of the rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

4.4.3 No more than 25% will be placed with any individual non-UK country or 50% total non-UK at any time.

4.4.4 **Sector limits.** The Council does not currently use sector limits e.g., banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £10M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

4.4.5 **Building Societies.** The Council includes building societies with assets greater than £10 billion (category 4). It recognises that this may carry a lower credit rating than the Council's other counterparties, therefore the lending limits are set at £4m for each counterparty in this category. (Nationwide is the exception as it fits into category 3 with a limit of £6m.)

Every effort will be made to spread the maturity profile (laddering) of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.5 Investment Strategy

4.5.1 **In-house funds.**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months).

4.5.2 Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

4.5.3 Accordingly, while up to £15m of cash balances are required to manage the ups and downs of cash flow, additional cash sums that can be identified, could be invested for longer periods however the value to be obtained from longer-term investments will be carefully assessed. For cashflow balances, the Council will seek to use Money Market Funds (MMF's), call accounts, notice accounts, and short dated deposits to benefit from the compounding of interest.

4.5.4 **Investment returns expectations.**

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.5%.

4.5.5 The average level of funds available for investment purposes is currently £48M (as at 31 December 2024). These funds are partially cash-flow derived and there is a core balance of approximately £33M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans for when they become repayable, the Usable Reserves, Capital Receipt, Capital grants unapplied, and HRA balances which were £19.68m, £1.1m, £10.56m and £4.69m at 31 March 2024 respectively (as shown in table 2.4).

4.5.6 The Council's budgeted rate of return for 2025/26 is 4.63% based on a return of 4.79% for funds that are already invested; 5% for the Local Authority Property Fund (£5M), 3.7% for the Cautious Multi-Asset Fund (£2m), 4.65% for the remaining core balances; and 4.55% for short term cash flow derived balances. The total investment income budget for 2025/26 is £2.02m (compared to £1.9m in 2024/25).

4.5.7 The Council currently uses three types of Pooled Funds; the Local Authority Property Fund, Cautious Multi-Asset Fund and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns particulary in the case of the property fund.

4.5.8 MMFs are used for short term daily surpluses of cash as they provide instant liquidity with high quality counterparties. Current rates are around 4.70%. They are "triple A" rated, liquid, and are currently all LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but LVNAV offers better protection than using the VNAV (Variable net asset value) MMFs.

4.5.9 **Investment treasury indicator and limit -** total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

4.5.10 The Council is asked to approve the treasury indicator and limits in appendix 2 (shown below):

Upper limit for principal sums invested for longer than 365 days			
£m	**2025/26**	**2026/27**	**2027/28**
Principal sums invested for longer than 365 days	£30m	£28m	£24m
Current investments as at 31/12/24 in excess of 1 year	£9m	£7m	£7m

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2025/26;

- £5m invested in the CCLA Local Authority Property Fund
- £2m invested in the CCLA Cautious Multi-Asset Fund
- £2m invested with Manchester City Council for 2 years (maturity – 14 October 2026).

4.6 Investment risk benchmarking

4.6.1 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of O/N SONIA (Sterling Overnight Index Average) compounded rate.

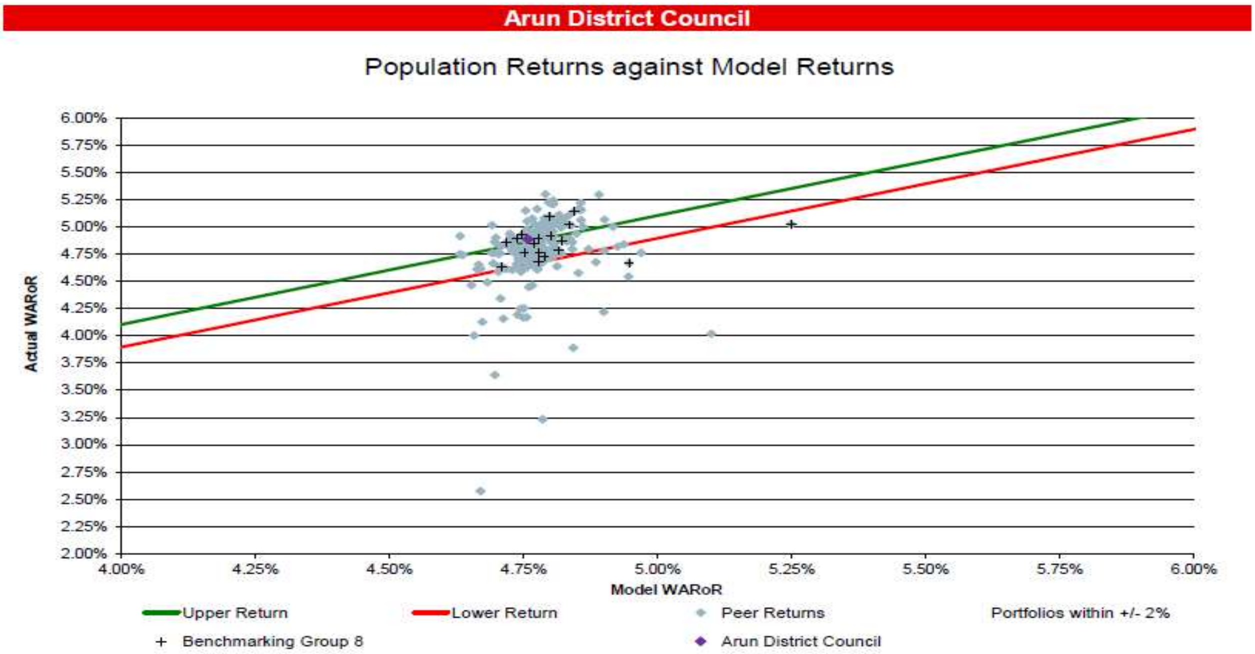
4.6.2 The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.

4.6.3 **MUFG Corporate markets SLY model**

These benchmarks are simple guides to manage risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

4.6.4 The Council has also subscribed to MUFG Corporate Markets Investment Benchmarking Club to review the investment performance and risk of the portfolios. Reports are received quarterly.

4.6.5 Below shows Arun's investment performance against other Councils.



Arun District Council	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
	4.89%	4.76%	0.13%	4.65%	4.86%	Above

4.6.6 The Councils performance for the treasury investment portfolio is just on the upper return boundary for the end of Q3 (2024-25).
This means the yields on investments made in 1-to-6-month durations (fixed deposit) are achieving a weighted average rate of return (WARoR) of 4.89% against the model portfolio's WARoR of 4.76%.

4.7 End of year investment report

4.7.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report

4.8 External Fund Managers

4.8.1 The Council invests in externally managed pooled funds managed by CCLA (Churches, Charities and Local Authorities). £7m is currently invested split between: -

- £5m in the Local Authority Property Fund and
- £2m in a Cautious Multi-Asset Fund

4.8.2 The treasury officers receive regular reports and notifications of quarterly dividends payable on both funds.

4.9 Scheme of delegation
Please see Appendix 9.

4.10 Role of the section 151 officer
Please see Appendix 10.

Prudential and treasury indicators

APPENDIX 2

Prudential Indicators	***31 March 2024 Actual £'000**	****2024/25 Original Budget £'000**	**2024/25 (Q3,P7) Forecast £'000**	**2025/26 Original Budget £'000**	**2026/27 Original Budget £'000**	**2027/28 Original Budget £'000**
Capital Expenditure:						
Non - HRA	7,153	24,020	12,974	26,345	7,969	2,770
HRA	7,114	15,151	12,626	13,552	10,086	8,686
TOTAL	**14,268**	**39,171**	**25,420**	**39,897**	**18,055**	**11,456**
Ratio of financing costs to net revenue stream:						
Non - HRA	(8.37)%	(6.22)%	(7.61)%	(7.73)%	(7.08)%	(6.50)%
HRA	18.25%	16.96%	17.57%	15.13%	14.36%	13.94%
Capital Financing Requirement (CFR) :						
Total opening CFR	52,858	55,212	51,884	54,525	79,477	85,640
<u>Closing CFR</u>						
Non - HRA	119	6,451	816	21,267	26,395	25,070
HRA	51,765	60,538	53,709	58,210	59,245	58,880
TOTAL	**51,884**	**66,989**	**54,525**	**79,477**	**85,640**	**83,950**
Annual change in CFR:						
Non – HRA	138	5,707	697	20,450	5,129	(1,325)
HRA	(1,111)	6,069	1,943	4,501	1,035	(365)
TOTAL	**(973)**	**11,776**	**2,641**	**24,951**	**6,164**	**(1,690)**
Unfinanced capital expenditure	**2,654**	**16,278**	**5,211**	**16,681**	**8,789**	**2,190**

- *(*) Some of these figures have been amended since the annual report was presented at the July 2024 meeting as there have been changes to the 23-24 accounts.*

- *(**) As per the 2024-25 Treasury Management Strategy Statement (TMSS) presented at the February 2024 meeting.*

Treasury indicators	**31 March 2024 Actual** **£'000**	**2024/25 Original** **£'000**	**2025/26 Original** **£'000**	**2026/27 Original** **£'000**	**2027/28 Original** **£'000**
Authorised Limit for External Debt: Borrowing Other long-term liabilities	 59,000 4,000	 75,000 8,000	 75,000 15,000	 82,000 14,000	 82,000 12,000
TOTAL	**63,000**	**83,000**	**90,000**	**96,000**	**94,000**
Operational Boundary for External Debt: Borrowing Other long-term liabilities	 55,000 4,000	 70,000 8,000	 70,000 15,000	 77,000 14,000	 77,000 12,000
TOTAL	**59,000**	**78,000**	**85,000**	**91,000**	**89,000**
Gross External Debt (Actual) Non – HRA HRA	 0 35,460	 0 35,460	 0 35,460	 0 35,460	 0 35,460
TOTAL	**35,460**	**35,460**	**35,460**	**35,460**	**35,460**
Remaining Authorised Limit for External debt:	**27,540**	**47,540**	**54,540**	**60,540**	**58,540**
Total Investments	42,765	*40,000	*41,000	*41,000	*36,800
Net borrowing (Net debt)	7,305	4,540	**5,540**	**5,540**	**1,340**
Upper limit for total principal sums invested for over 365 days (£m)	**36,000**	**30,000**	**30,000**	**28,000**	**24,000**

*** Estimated investments**

The operational Boundary and Authorised Limit for external debt have been increase over the next 3 years due to expected expenditure on the following:

- Sheltered accommodation
- Housing Improvements
- Decarbonisation
- Bognor Regis Arcade
- Levelling up Project
- General Fund programme (smaller projects)
- Finance leases

Maturity structure of borrowing – upper & lower limits:	Actual fixed borrowing 30-12-24	lower limit	upper limit
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 3

Minimum Revenue Provision (MRP) Policy Statement 2025/26

1. Introduction

1.1 MHCLG guidance on Minimum Revenue Provision (fifth edition 10 April 2024) places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by Council taxpayers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The MHCLG guidance requires the Council to approve an annual MRP statement and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of MHCLG **Guidance on MRP**

2.1. The statutory guidance issued by MHCLG sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by MHCLG to provide a simpler calculation for those Councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by Councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take an MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. MRP Policy

It is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.

- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Group Head of Finance.
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Group Head of Finance will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments provisions to repay the outstanding debt are made. Repayments are built into the HRA business plan and Medium Term Financial Forecast (MTFF) to show that it can pay down the remaining debt over the life of the business plan. Any repayment of principal re HRA is primarily but not exclusively through the MRR.

Appendix 4

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	4.645
927	Surrey County Council	03/12/2024	06/01/2025	£2,000,000.00	5.150
924	Overseas Chinese Banking Corporation (OCBC)	18/10/2024	17/01/2025	£3,000,000.00	4.750
925	Overseas Chinese Banking Corporation (OCBC)	25/10/2024	24/01/2025	£3,000,000.00	4.750
919	National Westminster Bank PLC (RFB)	29/07/2024	27/01/2025	£1,000,000.00	5.0900
913	Goldman Sachs International Bank	05/07/2024	05/02/2025	£1,000,000.00	5.1900
914	DBS Bank Ltd. (Development bank of Singapore)	05/07/2024	05/02/2025	£1,000,000.00	5.2100
915	DBS Bank Ltd. (Development bank of Singapore)	10/07/2024	05/02/2025	£1,000,000.00	5.200
911	National Westminster Bank PLC (RFB)	20/06/2024	20/02/2025	£2,000,000.00	5.1800
922	National Westminster Bank PLC (RFB)	26/09/2024	26/02/2025	£5,000,000.00	4.8000
921	Goldman Sachs International Bank	12/09/2024	04/03/2025	£3,000,000.00	4.8450
926	City of Bradford Metropolitan District Council	20/11/2024	20/03/2025	£3,000,000.00	5.050
912	Goldman Sachs International Bank	27/06/2024	07/04/2025	£1,000,000.00	5.2050
916	DBS Bank Ltd. (Development bank of Singapore)	22/07/2024	07/04/2025	£3,000,000.00	5.110
928	City of Bradford Metropolitan District Council	16/12/2024	07/04/2025	£2,000,000.00	5.400
917	DBS Bank Ltd. (Development bank of Singapore)	25/07/2024	23/05/2025	£1,000,000.00	5.080
920	Lancashire County Council	20/09/2024	19/09/2025	£2,000,000.00	4.7500
893	Close Brothers Limited	06/11/2023	06/11/2025	£1,000,000.00	5.350
923	Manchester City Council	14/10/2024	14/10/2026	£2,000,000.00	4.600
44447	Lloyds Bank			£6,060,000.00	4.62
100500	CCLA (Churches, Charities and LA's) (MMF)			£10,000.00	4.76
110000	Federated Investors LLP (MMF)			£2,500,000.00	4.75
99999	Fidelity Fund Management Ltd (MMF)			£600,000.00	4.73
1200000	Aberdeen Standard			£1,330,000.00	4.78
130000	Deutsche Bank (MMF)			£10,000.00	4.64
140000	CCLA - Local Authority Property Fund			£5,000,000.00	5.10
140500	CCLA- Cautious Multi-Asset Fund			£2,000,000.00	3.50
				£55,510,000.00	

MMF- Money Market Fund
CCLA- Churches, Charities and LA's

Interest Rate Forecast 2024-2027

APPENDIX 5

The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 100bps over Gilts effective as of the 26 November 2020.

Bank Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**4.75%**	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
Capital Economics	**4.75%**	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%	-	-	-	-

5yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.07%**	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	4.00%	3.90%
Capital Economics	**5.07%**	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%	-	-	-	-

10yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.39%**	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%	4.20%	4.20%	4.10%
Capital Economics	**5.39%**	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%	-	-	-	-

25yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.88%**	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%
Capital Economics	**5.88%**	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%	-	-	-	-

50yr PWLB Rate	NOW	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
MUFG Corporate Markets	**5.59%**	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.30%
Capital Economics	**5.59%**	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%	-	-	-	-

Specified and Non-Specified Investments **APPENDIX 6**

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£10M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£10M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£9M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£6M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Callable deposits	✓	✓	As category 1,2,3,4, and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5
Forward deposits	✓	✓	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5

Debt Management Agency Deposit Facility (DMADF) – UK Government **(category 8)**	✓	✓	--	No limit	Liquid (max is set by DMO - Debt Management Office of HM Treasury)
Bonds Issued by multilateral development banks **(category 9)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(Category 6)**	✓	✓	AAA	£4M	liquid
Alternative Investments • Ultra-Short dated Bond Funds **(Category 7)**	✓ ✓	✓	--	£4M	liquid
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority (FCA), such as the Local Authorities' Property Fund **(Category 10)**		✓	--	£6M	These funds do not have a defined maturity date
Multi-Asset Funds – such as the Local Authorities' Diversified Fund **(Category 11)**		✓	--	£6M	These funds do not have a defined maturity date

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £10 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Australia & New Zealand banking Group Ltd (ANZ - AUS)
Bank of Nova Scotia (CAN)
Development Bank of Singapore Ltd (DBS-SING)
National Australia Bank (AUS)
Oversea-Chinese Banking Corp Ltd (OCBC-SING)
United Overseas Bank Ltd (UOB - SING)

Category 2 - Limit of £9 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (RFB &NRFB) (UK)
Handelsbanken Plc (UK)
JP Morgan Chase (USA)
National Bank of Canada (CAN)
National Westminster Bank PLC (RFB) (UK)
Natwest Markets Plc (NRFB) (UK)
Santander (UK)
Standard Charted Bank (UK)
The Royal Bank of Scotland PLC (RFB) (UK)

Category 3 - Limit of £6 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

* Close Brothers (UK) - *currently suspended*
Nationwide Building Society (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £9M term deposit)

Lloyds Bank Plc (RFB) (Cat 2 for Term deposit limit)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
Category 6 - Money Market Funds (MMF's)		
(CNAV, LVNAV, VNAV & Enhanced MMF's		
Limit of £4million for each institution		
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
State Street Global Advisors	AAA	LVNAV
Northern Trust	AAA	

Category 7 - Alternative Investments - No defined maturity date
Maximum investment £4 million

Ultra-Short dated Bond Funds

Category 8 - Debt Management Agency Deposit Facility (DMADF)
NO LIMIT (UK Govt)

Debt management Office (DMO)

Category 9 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 10 – Property Funds - No defined maturity date
Maximum investment £6 million

CCLA - Property Fund

Category 11 - Multi-Asset Funds - No defined maturity date
Maximum investment £6 million

CCLA - Diversified Income Fund

** Currently suspended while under review and subject to any rating increases as below the minimum criteria currently.*

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest of 2 or more rating agencies).

AAA

- Australia
- Canada (Fitch AA+)
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA-

- Belgium (S&P AA)
- France (Moody Aa2)
- **U.K.** (S&P AA)

Consideration will be given to other factors, including Ethical, Environmental, Social and Governance standards when considering investments in Non-Uk destination.
As such, countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

As detailed in 4.1 (7) it has been determined that the UK will remain an approved country for investments regardless of its sovereign rating if after careful consideration, it is deemed appropriate to do so.

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy;
- approval of MRP Statement.

(ii) Policy and Finance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee (responsibility for scrutiny)

Receiving and reviewing the following and making recommendations to Full Council (the responsible body).

- the Treasury Management Strategy Statement (TMSS) and regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

APPENDIX 10

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

APPENDIX 11

Removal of IFRS 9 Override - Impact Assessment

1.0 Background

1.1 IFRS 9, (International Financial Reporting Standard 9), is an accounting standard issued by the International Accounting Standards Board to address the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. It enhances the financial reporting of financial instruments, fostering a more consistent and relevant representation of an entity's financial position and performance.

1.2 Local authorities have expressed concerns to Department for Levelling Up, Housing, and Communities (MHCLG) regarding the impact of IFRS 9, particularly on pooled investment funds. This transition to the new IFRS 9 requirements for collective investment vehicles has raised nationwide implications and added complexity and prompting scrutiny of its potential effects on the statutory duty to set a balanced budget. Currently, an override is in effect, exempting the Council's financial statement preparation from IFRS 9.

1.3 The MHCLG enacted a statutory over-ride from 1 April 2018 for a five-year period plus a further two years until 31 March 2025.

1.4 IFRS9 impacts the write-down in the valuation of impaired loans and as a result, it is applicable to the Councils' financial statements from April 2025.

2.0 Changes in Accounting for Pooled Investment Funds

2.1 The Council currently has investments in the CCLA Local Authorities Property Fund (LAPF) and the CCLA Cautious Multi-Asset Fund. As the override comes to an end, these funds will adhere to the standard accounting provisions, potentially resulting in their categorisation as financial assets at fair value through the revenue account. This reclassification signifies that fluctuations in the fair value of these pooled investment funds will directly affect the revenue account of the Council. In simple terms, a decrease in value during the fiscal year will be treated as expenditure, while an increase in value will be regarded as income.

2.2 The tables below give some further information on the current position of the funds, and information on the income over the life of the holding so that a full assessment of the performance of these investments can be made.

CCLA Fund	Initial Investment £'000	Valuation at 31/12/2024 £'000	Gain / (loss) at 31/12/2024 £'000	* Dividends To 31/12/2024 £'000	** Net Gain £'000
Local Authorities Property Fund	£5,000	£4,630	(£370)	£1,858	£1,488
Cautious Multi-Asset Fund	£2,000	£1,927	(£73)	£258	£185
TOTAL	**£7,000**	**£6,557**	**(£443)**	**£2,116**	**£1,673**

* From inception
** Over the life of the investment

2.3 If IFRS 9 was applied to these investments as at 31st December 2024 the result would be a realisation of a loss (akin to an expense in the revenue account) of £443k which has the potential to have a significant impact on the Councils' budget as the capital loss to date will need to be realised in full in financial statements for the year ended 31st March 2026. Moving forward this movement should only be year on year and assuming relatively stable fund values can be managed via a reserves provision.

3.0 Action Points

3.1 Under the new government proposals, Councils would need to comply with the requirements of IFRS 9 from financial year 2025/26. The government's consultation on its provisional local government finance settlement for 2025/26 asks respondents to specify the potential financial impact on Councils, of removing the override and any implications with respect to financial sustainability. This consultation closed on 15 January 2025, and it was decided that there would be no continuance of the override after 31 March 2025.

3.2 With careful consideration to the Councils' revenue position, officers will explore options to manage the risks associated with this change in regulation. This will include, but not be limited to, discussion with CCLA as the fund manager, Ernst & Young as the external auditor and MUFG Corporate Markets (treasury management advisors).